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Japanese Panel Starts Work On Reform Of Economy

Prime Minister Yasuhiro Nakasone has established an advisory committee to report on policies Japan should pursue to harmonize its economic relations with other countries. The 17-member panel, which is chaired by former Bank of Japan governor Haruo Maekawa, consists of academic, business and government leaders, including Yoshio Okawara, former ambassador to the United States. The committee is expected to work out specific policy proposals by next March.

the dispute. More than a year ago, the administration said it supported the "water's edge" approach, which allows states to tax a percentage of a firm's domestic income. It threatened pre-emptive legislation if the states were unable or unwilling to adopt this approach. Of the six states that retain the worldwide unitary tax (the other five are Montana, Idaho, North Dakota, Alaska and New Hampshire), California is by far the most important. A resolution of the issue in California would have a significant impact on the drive to curtail its utilization.

Reactions to the latest development were predictable: unitary tax supporters, outraged by the action, decried the assumption of state prerogatives by the executive, while anti-unitary tax forces applauded the move. Officially, the Japanese government is assuming a wait-and-see posture, but the action certainly must satisfy Japanese private-sector groups, many of whom intimated earlier in the year that their hopes for administration-sponsored legislation had not been abandoned despite the shift in lobbying emphasis. Final details, however, are still as scarce as they were four weeks ago, when rumors of administration actions were first floated.

Michael W. Chinworth

Bilateral Trade Deficit Headed For $50 Billion Mark This Year

A favorite pastime in the economics profession not long ago was knocking the Reagan administration for missing the mark in most of its economic projections. About the only number the government seemed to have a handle on, noted private forecasters, was the trade imbalance. At the start of the year, Washington pegged 1985's overall trade deficit at $150 billion (imports valued c.i.f.), up from last year's once-unimaginable $123 billion red-ink entry. With the deficit already at $107.6 billion through September, this estimate should be right on target. Imports, although only 4 percent higher at $268.4 billion than the January-September 1984 tally, still have the biggest buying season on tap, while exports show no signs of overcoming the sluggishness that trimmed them 0.7 percent during 1985's first three quarters to $160.8 billion.

The U.S. trade deficit with Japan, which reached $36.8 billion in 1984, should also come in close to the administration's $50 billion projection (imports again valued c.i.f.). At $36.9 billion as of September, the bilateral imbalance was three-fourths of the way toward this mark. Moreover, a fourth quarter red-ink total of $13 billion or so is certainly not out of the question given the fact that the deficit was in this neighborhood in both the April-June period ($13.1 billion) and the July-September quarter ($12.7 billion). (With imports valued on a Customs basis, the 1985 U.S. trade deficit with Japan is headed for the $46 billion range, after hitting $34.2 billion in the year's first nine months and $33.6 billion in full-year 1984.)

The political fallout generated by the expanding bilateral trade imbalance has become a fact of life for Japanese policymakers over the past two years. In 1984 Tokyo could at least counter that the fast-rising U.S. deficit with Japan played just one part in this country's mounting trade problems, contributing only one-fourth-plus of the deterioration in the aggregate trade account. In 1985, however, Japan's trade negotiators do not have even this

U.S. Exports to Japan

(in millions of dollars, f.a.s. value basis)

	January-September 1984	January-September 1985	Percent Change
Total Exports	$17,416.8	$17,063.8	-3.7%
Industrial Supplies	6,718.7	6,468.2	-3.7
Bituminous Coal	699.0	608.4	-13.0
Petroleum Products	496.8	544.1	9.5
Natural Gas	196.9	185.8	-5.6
Nuclear Fuels	129.1	88.2	-31.7
Logs and Lumber	651.1	651.6	0.1
Paper Base Stocks	401.3	360.1	-10.3
Paper and Paper Products	222.6	210.3	-5.5
Organic Chemicals	534.3	526.1	-1.5
Inorganic Chemicals	620.3	633.4	2.1
Plastics and Synthetic Resin Compounds	267.9	234.1	-12.6
Fertilizers and Insecticides	210.8	205.6	-2.5
Steel Scrap	198.0	142.7	-27.9
Nonferrous Ores and Scrap	257.1	368.5	43.3
Nonferrous Metals	299.1	239.5	-19.9
Textiles	86.3	83.1	-3.7
Raw Cotton	453.2	309.2	-31.8
Hides and Skins	243.0	216.6	-10.9
Leaf Tobacco	42.9	83.4	94.4
Capital Goods	4,064.1	4,490.1	10.5
Nonelectric Machinery	2,520.5	2,624.9	4.1
Data Processing Equipment	825.8	1,045.1	26.6
Measuring, Testing and Control Instruments	325.6	348.2	6.9
Laboratory Testing and Control Instruments	70.1	80.2	14.4
Scientific, Professional and Medical Equipment	186.0	200.7	7.9
Power Generating Equipment (excl. aircraft and automotive engines)	230.9	55.7	-75.9
Metalworking Equipment	77.2	83.6	8.3
Service Industry Equipment	84.8	92.9	9.6
Electric Machinery	656.3	614.5	-6.4
Generators and Transformers	70.0	54.3	-22.4
Broadcast and Communications Equipment	324.3	251.0	-22.6
Telephonic and Other Electric Equipment	262.0	309.2	18.0
Transportation Equipment	887.3	1,250.6	40.9
Civilian Aircraft	504.9	632.5	107.5
Civilian Aircraft Engines and Parts	341.5	406.4	19.0
Automotive Parts	132.8	156.0	17.5
Food and Feed	4,577.8	3,772.7	-17.6
Corn	1,553.6	953.3	-38.6
Sorghum	163.4	152.0	-7.0
Soybeans	899.2	663.3	-26.2
Wheat	402.0	365.6	-9.1

Fruits and Vegetables	349.3	350.3	0.3
Meat and Meat Products	430.4	391.6	-9.0
Fish and Fish Products	450.0	618.8	37.5
Consumer Goods	1,114.8	1,093.4	-1.9
Pharmaceuticals	424.4	461.7	8.8
Toys and Sporting Goods	69.1	62.8	-9.1
Cigarettes	74.6	69.5	-6.8

U.S. Imports from Japan

(in millions of dollars, Customs value basis)

	January-September 1984	January-September 1985	Percent Change
Total Imports	$43,321.8	$51,281.8	18.4%
Automotive Products	14,114.6	18,197.4	28.9
Cars	9,465.6	11,705.8	23.7
Assembled Trucks	2,176.7	3,107.7	42.8
Automotive Parts	2,424.2	2,913.0	20.2
Capital Goods	14,577.1	16,313.9	11.9
Nonelectric Machinery	9,782.0	11,013.3	12.6
Business Machines	4,874.5	4,777.5	-2.0
Metalworking Machinery	691.3	943.4	36.5
Agricultural Machinery	273.8	281.6	2.9
Specialized Industrial Machinery	1,095.2	1,002.4	-8.5
Scientific, Professional and Medical Equipment	353.4	490.7	38.9
Electric Machinery	4,329.6	4,886.7	7.9
Transportation Equipment	265.6	413.9	55.8
Consumer Goods	8,466.1	10,363.8	22.4
Video and Audio Recorders and Players and Stereo Equipment	2,792.0	3,908.6	42.1
Television Sets	523.4	596.2	13.9
Radio Receivers	226.7	236.1	4.2
Tableware and Glassware	311.4	326.2	4.8
Metal Cookware and Cutlery	299.4	315.7	5.4
Photographic and Optical Goods	775.6	657.2	-15.3
Clocks and Watches	317.5	363.8	14.6
Toys and Sporting Goods	299.7	411.3	37.2
Motorcycles and Parts	520.2	600.1	15.4
Clothing	385.7	382.5	-0.8
Intermediate Goods	5,542.3	5,504.1	-0.7
Steel Mill Products	2,353.7	2,463.0	4.6
Nonferrous Metals	397.1	400.7	0.9
Organic Chemicals	401.4	441.3	9.9
Tires and Tubes	392.8	431.8	9.9
Textiles	522.0	533.3	2.2

out: fully three-fourths of the jump in the overall U.S. trade deficit is attributable to the increased flood of red ink with Japan.

This attention to the bottom line, while understandable, ignores a number of positive developments in U.S.-Japan trade. Although total exports are off because of falling sales of industrial and agricultural inputs, high technology products are doing well almost across the board (see accompanying tables). Jet transports are only the biggest winners on a list that includes computers and peripheral equipment, measuring and testing instruments, scientific and professional equipment, and pharmaceuticals.

Of note as well is the slower growth posted by all the end-use import categories. Capital goods, last year's high fliers, are rising at a fairly moderate rate in 1985, mainly because of cut-back purchases of business machines. Even purchases of automotive products are increasing at a reduced rate despite the higher ceiling on Japan's U.S.-bound car shipments.

Susan MacKnight

Notes

• International Business Machines Corp. and the Ministry of International Trade and Industry signed an accord November 5 that could have a strong impact on the global information industry. The Armonk, New York-based computer giant gained immediate access to over 700 electronics-related Japanese patents controlled by MITI. Until now, foreign firms were barred from licensing publicly held patents that were the result of government-sponsored research projects (see JEI Report No. 32B, August 23, 1985). Competing American and Japanese computer makers are worried that the accord will strengthen IBM's already daunting competitive position. A rush of foreign firms seeking similar deals is expected in the near future.

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The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.